Stephenson House,
75 Hampstead Road NW1 2PL

Independent Viability Review

Prepared on behalf of London Borough of Camden

12th September 2017

BPS Chartered Surveyors

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Planning Reference: 2017/3518/P

1.0 INTRODUCTION

1.1 BPS Chartered Surveyors have been instructed by London Borough of Camden ('the Council') to undertake a review of a Financial Viability Assessment (FVA) prepared by Gerald Eve on behalf of Lazari Properties 2 Limited ('the Applicant') in connection with a planning application for the redevelopment of the above site.

1.2 The existing Stephenson House building which was constructed circa 1960 currently comprises retail and office/ clinic space at ground floor level with offices over six storeys above.

1.3 The location is mixed in nature with a variety of commercial uses in the immediate area. London Underground stations in the immediate vicinity are Warren Street and Euston Square. The site is not located in a conservation area nor is it listed.

1.4 The proposals are for:

Extensive internal and external refurbishment of Stephenson House to provide a ground plus 7 storey building containing to provide 18, 181sqm (GIA) of Class B1 Office floorspace, 904sqm (GIA) of flexible Class B1/D1 floorspace, 857sqm (GIA) of Class A1 Retail floorspace, 118sqm (GIA) of Class A3 Retail floorspace and 17 Residential units (total 2130sqm GIA), comprising 11 market units (1 x 1 bed, 6x 2 bed, 4 x 3 bed) and 6 affordable units (3 x 2 bed, 3 x 3 bed). Removal of existing colonnade to Hampstead Road elevation, creation of double height entrance on Hampstead Road, creation of three terraces to the rear, three integral pocket gardens to the Hampstead Road elevation and balconies facing Hampstead Road to all residential units. Addition of PV panels to the roof, 249 commercial cycle parking spaces, 33 residential cycle parking spaces, 4 disabled car parking spaced, associated landscaping and works.

1.5 The proposed scheme will provide six affordable housing units which equates to 35% affordable housing by unit number. Under LB Camden's new Local Plan, the target would be 42% affordable housing units as the overall uplift is below 5,000sq.m and the residential uplift is below 2,500sq.m GIA (CIL form indicates 2,130sq.m residential GIA, which suggests capacity for 21 homes and a target of 42%).

1.6 The basis of our review is a Financial Viability Assessment prepared by Gerald Eve, dated June 2017, which concludes that the scheme currently falls short of a 17.14% profit target on GDV, showing that only 12.08% profit on GDV can be achieved and therefore no additional affordable housing can viably be offered. We have also downloaded documents available on Camden's planning website.

1.7 Subsequent to our initial queries we have also received an Addendum Note prepared by Gerald Eve dated 16th August 2017. We have also received a live version of the Argus appraisals included in the report.

1.8 We have assessed the cost and value inputs within the financial appraisal in order to determine whether the scheme can viably make any additional affordable housing contributions.

1.9 We have searched Camden's planning website and have not identified any other outstanding planning applications relating to the site. Recent applications include installation of air conditioning units and in relation to a change of use for the ground floor dating from 2009. A Land Registry search shows that the applicant purchased the site in December 2016 for [redacted]

2.0 CONCLUSIONS AND RECOMMENDATIONS

2.1 We have reviewed the Financial Viability Assessment and Addendum Note prepared by Gerald Eve on behalf of the applicant for the proposed scheme which concludes that the proposed scheme falls short of the 17.14% on GDV profit target producing only 12.08% profit on GDV. On this basis the scheme cannot provide any additional affordable housing contribution.

2.2 Gerald Eve have approached the Benchmark Land Value a number of different ways including Price Paid; Current Use Value (with and without refurbishment) and Market-based transaction evidence.

2.3 GE provide information of previous sales of the site dating back to 1999. The most recent sale they include is in April 2005 with a price paid of [redacted]. Gerald Eve state that this figure should be given limited weight. A Land Registry search shows that the site was more recently transacted in December 2016 for [redacted]

2.4 GE have next considered the Current Use Value (Existing Use Value) of the property which is a 1960s office building with basement and ground floor and six upper floors. The current use of the property is part retail (A1), office (B1) and a small health facility (D1) as well as car parking. Gerald Eve have considered the EUV of the existing building both "as is" condition and with a refurbishment programme.

2.5 The EUV for the property in its current condition "as is" is stated as [redacted] Gerald Eve have then considered a scheme of refurbishment and have allowed for refurbishment costs, contingency and professional fees amounting to [redacted] Market rent and yields have been adjusted to reflect the refurbished condition of the building. GE arrive at an EUV for the property, allowing for refurbishment, of [redacted]

2.6 GE have also examined transaction evidence located within 1.0mile of the subject property. The transactions are either income producing or vacant. GE rightly note that the motive of the purchaser is unknown and any of the transactions may be subject to redevelopment plans. There is a wide variation in office sales values in the surrounding area. Having made adjustments to the transaction evidence, GE identify a potential range of [redacted] for the subject site.

2.7 Overall, GE are of the opinion that the Site Value is £85million which reflects a 9% Landowner's premium on the "as is" EUV. We acknowledge that a 9% premium falls into the generally accepted range although we would expect that, where substantial refurbishment is required, the Premium would be towards the lower end of the range.

2.8 We have reviewed the information provided by Gerald Eve and have referred to Bryan Pontifex of Crossland Otter Hunt who has examined the commercial values assigned to the existing space and refurbished space. Bryan has suggested amendments to some of the rents and yields and we have adjusted the valuations accordingly. We arrive at an EUV for the building "as is" of [redacted] and the EUV with refurbishment is [redacted]

2.9 It is clear that the EUV is highly sensitive to the proposed rents which will be determined by the quality of the space upon refurbishment or repair, as well as market conditions at the time of re-letting. We have not examined the refurbishment rate of [redacted] n detail as we have not been provided with a cost plan however BCIS data would indicate that the rate could be higher depending on the level of specification required. On this basis we have agreed with a figure of £85million as the Benchmark Land Value.

2.10 The proposed scheme includes 11 private residential units which are located at within the northern portion of the building and will be accessed from Hampstead Road. There is a mix of one, two and three bedroom flats. There are separate lobbies for the private units and the affordable units. All units have either a balcony or Juliette balcony. All floors are accessible by lift or by a central staircase. The proposed GDV of [redacted] equates to [redacted] We have undertaken our own research into private residential values and are satisfied that the proposed values are reasonable.

2.11 The scheme includes six affordable housing units which equates to 35% by unit number. This is made up of four Social Rented units and two Intermediate Rented units. The affordable housing will be located in a separate core to the private accommodation and arranged over second to seventh floor. The blended rate of [redacted] has been arrived at by Gerald Eve's affordable housing team and the average rate for the Social Rented units is [redacted] and the Intermediate units is [redacted]

2.12 We have compiled valuation models in order to ascertain the reasonableness of these assumptions. The optimum method of assessing affordable housing values for the purpose of viability testing is to gain RP offers for the proposed units. Overall, we have suggested a small increase in the blended rate to [redacted] which reflects an adjustment in the yield of the social rented housing from [redacted]

2.13 Ground rents have been assigned at [redacted] per annum per private residential flat and the income has been capitalised at [redacted]. We are satisfied that this is a reasonable approach.

2.14 There are no car parking spaces associated with the residential element of the scheme but there are 33 cycle parking spaces.

2.15 Bryan Pontifex of Crossland Otter Hunt has reviewed the proposed value for the commercial space. Based upon his research and market experience he has suggested a number of amendments as outlined in the table below:

Use	Rent £psf	Yield
Office (B1) Ground-7th Floor	(blended) [redacted]	[redacted]
Office (B1) Basement	[redacted]	[redacted]
Retail (A1) Ground	[redacted]	[redacted]
Retail (A1) Basement	[redacted]	[redacted]
Café (A3) Ground	[redacted]	[redacted]
Office/Clinic (B1/D1) Basement	[redacted]	[redacted]
Office/Clinic (B1/D1) Ground	[redacted]	[redacted]

2.16 These revisions result in a revised Gross Development Value for this element of the scheme of approximately [redacted] or [redacted] having accounted for purchasers costs.

2.17 Our Cost Consultant, Geoffrey Barnett Associates, has reviewed the Cost Plan for the proposed scheme prepared by CN Associates, dated January 2017, and concludes that the cost per m2 using BCIS of [redacted] would indicate that the CN Associates rate of [redacted] is within acceptable estimating margins.

2.18 We have been provided with a live version of the Argus appraisal included in the Gerald Eve report to which we have applied our amendments which include: affordable housing values and commercial values. We have adjusted the blended profit target to 17.12% to reflect these changes. Having made the amendments to the Argus appraisal, and using a fixed Land Value of £85,000,000, the appraisal shows [redacted]

2.19 We have also run a residual valuation using the blended profit target of 17.12% on GDV, which reflects a profit of 21.70% on costs. The resulting residual value is [redacted] When compared to the benchmark of £85,000,000 it shows that the scheme generates a surplus of approximately [redacted]. We therefore conclude that the scheme may be able to provide an additional contribution to affordable housing.

3.0 BENCHMARK LAND VALUE

Viability Benchmarking

3.1 Development appraisals work to derive a residual value. This approach can be represented by the formula below:

Gross Development Value – Development Costs (including Developer's Profit) = Residual Value

3.2 The residual value is then compared to a benchmark land value. Existing Use Value (EUV) and Alternative Use Value (AUV) are standard recognised approaches for establishing a land value as they help highlight the apparent differences between the values of the site without the benefit of the consent sought.

3.3 The rationale for comparing the scheme residual value with an appropriate benchmark is to identify whether it can generate sufficient money to pay a realistic price for the land whilst providing a normal level of profit for the developer. In the event that the scheme shows a deficit when compared to the benchmark figure the scheme is said to be in deficit and as such would be unlikely to proceed.

3.4 We note the Mayor's Housing SPG published March 2016 states a clear preference for using EUV as a basis for benchmarking development as this clearly defines the uplift in value generated by the consent sought. This is evidenced through the following extract:

"…….either 'Market Value', 'alternative use value', 'existing use value plus' based approaches can address this requirement where correctly applied (see below); their appropriate application depends on specific circumstances. **On balance, the Mayor has found that the 'Existing use Value plus' approach is generally most appropriate for planning purposes, not least because of the way it can be used to address the need to ensure that development is sustainable in terms of the NPPF and Local Plan requirements, he therefore supports this approach**. The 'plus' element will vary on a case by case basis based on the circumstances of the site and owner and policy requirements." [Emphasis original]

3.5 We find the Market Value approach as defined by RICS Guidance Viability in Planning 2012 if misapplied is potentially open to an essentially circular reasoning. The RICS Guidance promotes use of a modified standard definition of "market Value" by reference to an assumption that the market values should reflect planning policy and should disregard that which is not within planning policy. In practice we find that consideration of compliance with policy is generally relegated to compliance somewhere on a scale of 0% to the policy target placing land owner requirements ahead of the need to meet planning policy.

3.6 Furthermore the RICS guidance is in conflict with PPG in that PPG adopts a different level of emphasis in respect of the importance of planning policy. This is evident from the PPG extract set out below:

reflect policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge;

3.7 The requirement to reflect policy is unambiguous. PPG is statutory guidance whereas RICS guidance is a simply a material consideration.

3.8 There is also a high risk that the RICS Guidance in placing a very high level of reliance on market transactions is potentially exposed to reliance on bids which might

a) Represent expectations which do not mirror current costs and values as required by PPG.

b) May themselves be overbids and most importantly

c) Need to be analysed to reflect a policy compliant position.

To explain this point further, it is inevitable that if site sales are analysed on a headline rate per acre or per unit without adjustment for the level of affordable housing delivered then if these rates are applied to the subject site they will effectively cap delivery at the rates of delivery achieved of the comparable sites. This is an essentially circular approach which would effectively mitigate against delivery of affordable housing if applied.

3.9 The NPPF recognises at paragraph 173 the need to provide both land owners and developers with a competitive return. In relation to land owners this is to encourage land owners to release land for development. This has translated to the widely accepted practice when using EUV as a benchmark of including a premium. Typically in a range from 5-30%. Guidance indicates that the scale of any premium should reflect the circumstances of the land owner. We are of the view that where sites represent an ongoing liability to a land owner and the only means of either ending the liability or maximising site value is through securing a planning consent this should be a relevant factor when considering whether a premium is applicable.

The Proposed Benchmark

3.10 The benchmark proposed by Gerald Eve for viability testing is based on a number of different approaches including Price Paid; Current Use Value (with and without refurbishment) and Market-based transaction evidence.

3.11 The first approach taken to arriving at the Benchmark Land Value is a “price paid” approach. Gerald Eve provide information of previous sales of the site dating back to 1999. The most recent sale they include is in April 2005 with a price paid of [redacted]. Gerald Eve state that this figure should be given limited weight. A Land Registry search shows that the site was more recently transacted in December 2016 for [redacted].

3.12 We do not consider a price paid approach to be reliable for reasons as outlined above and unless the transaction analysed to reflect policy requirements and we have given this method limited weight.

3.13 Gerald Eve have next considered the Current Use Value (Existing Use Value) of the property which is a 1960s office building with basement and ground floor and six upper floors. The current use of the property is part retail (A1), office (B1) and a small health facility (D1) as well as car parking. Gerald Eve have considered the EUV of the existing building both “as is” condition and with refurbishment programme.

3.14 We requested additional information regarding the assumptions made in the EUV valuations regarding the specification of the building as well as the existing leases and we now refer to the EUV valuation as outlined in the Addendum Note of August 2017.

3.15 Although constructed in the 1950s, we are informed that the building underwent substantial refurbishment in the 1990s to provide basement car parking and offices over the ground to sixth floor. We understand that the first to third floors currently provide modern office specification and the fourth to sixth floors provide a slightly inferior specification. Overall, we are informed that the property is functional and well-maintained.

3.16 Gerald Eve have considered the existing leases in arriving at their assessment of EUV. Existing income has been included until 31st October 2018 at [redacted] per annum. On expiry of the leases a reversion to market rent has been assumed on a 10 year lease. Marketing voids have been assumed at 18 months on all commercial areas and rent free periods have been assumed at 18 months for all areas except the B1/D1 space, where a 12 month rent-free allowance has been made.

3.17 We have been provided with a summary of the existing leases and sub-lettings:

Tenant	Demise	Floor area sq ft NIA	Current rent per annum	Lease terms	Term expiry
[redacted]	Entire building comprising basement car park, retail units, and ground to sixth floors	113,746 sq ft plus 73 basement car parking spaces	[redacted]	20 years from 01/11/1998	31/10/2018
[redacted]	Additional rent in respect of Landlord's contribution towards Former Sols Arms Pubs	N/A	[redacted]	From 04/10/2010 to 31/10/2018	31/10/2018
[redacted]	Additional rent for change of use of first floor reception area to conference rooms	N/A	[redacted]	From 25/12/2011	
		Total	[redacted] **per annum**		

3.18 The passing rent has been analysed as follows:

Schedule of Accommodation	Use	NIA sq ft	Rent £psf	Rent per annum
85 Hampstead Road -	Retail			
Ground		4,454	[redacted]	[redacted]
Floor Store		886	[redacted]	[redacted]
87 Hampstead Road -	Retail			
Basement		3,328	[redacted]	[redacted]
Ground		886	[redacted]	[redacted]
Basement Car Park	Car Park	73 car spaces	[redacted]	[redacted]
Ground Floor	Reception	634	[redacted]	[redacted]

Ground Floor	Offices	17,556	[redacted]	[redacted]
1st Floor	Offices	24,719	[redacted]	[redacted]
2nd Floor	Offices	13,234	[redacted]	[redacted]
3rd Floor	Offices	13,764	[redacted]	[redacted]
4th Floor	Offices	13,825	[redacted]	[redacted]
5th Floor	Offices	13,853	[redacted]	[redacted]
6th Floor	Offices	6,926	[redacted]	[redacted]
		113,746		[redacted]
		Plus 73 parking spaces		**Say** [redacted]

3.19 Market rent and yields of the existing building “as is” has been assessed as follows:

Element	EUV (existing) Rent	EUV (existing) Yield
CPCT Lease	[redacted]	[redacted]
B1a Offices	[redacted]	[redacted]
A1 Retail (Ground)	[redacted]	[redacted]
A1 Retail (Basement)	[redacted]	[redacted]
Retail (Store)	[redacted]	[redacted]
B1/D1 Space (Ground)	[redacted]	[redacted]

3.20 A yield of [redacted] has been adopted for both the passing rental income and for the reversion to market rent for the B1 Offices and A1 Retail. A yield of [redacted] has been applied to the reversion to market rent for the B1/D1 space.

3.21 Based upon the above assumptions, GE arrive at a EUV for the property in its current condition “as is” to be [redacted]

3.22 Gerald Eve have then considered a scheme of refurbishment and have created an appraisal to allow for refurbishment costs, contingency and professional fees equating to [redacted]. Market rent and yields have been adjusted to reflect the refurbished condition of the building. Based on the outcome of their appraisal, GE arrive at an EUV for the property, allowing for refurbishment, of [redacted].

3.23 Market rent and yields for the refurbished building have been assessed as follows:

Element	EUV (refurbished) Rent	EUV (refurbished) Yield
CPCT Lease	[redacted]	[redacted]
B1a Offices	[redacted]	[redacted]
A1 Retail (Ground)	[redacted]	[redacted]
A1 Retail (Basement)	[redacted]	[redacted]
Retail (Store)	[redacted]	[redacted]
B1/D1 Space (Ground)	[redacted]	[redacted]

3.24 In this scenario, construction costs have been assumed at a rate of [redacted] This is a rate based on BCIS information and no cost plan has been produced. With reference to the specification provided we have referred to our Cost Consultants, Geoffrey Barnet Associates, to understand whether these refurbishment costs are reasonable. GBA comment that the figure for fitting out of offices has been taken correctly from BCIS. However, if there is any need for any kind of refurbishment or alteration these figures would need to increase. BCIS show a mean rate of [redacted] for rehabilitation/conversion of offices. On this basis a higher rate than the proposed may be appropriate but without a cost plan we are unable to test this figure adequately.

3.25 We have sought the advice of Bryan Pontifex of Crossland Otter Hunt in reviewing the valuations set out in respect of the EUV. Bryan's full report is available at Appendix 2.

3.26 Although Bryan has estimated that the PCT Lease could be renewed at [redacted] we have adopted Gerald Eve's figure of [redacted] to reflect that a slightly lower rent may be accepted for the renewal of an existing tenant's lease. Bryan has also suggested some potential changes to the timing of the re-letting however for the purposes of our EUV valuations we have assumed GE's timings are realistic.

3.27 On the basis of the advice received from Bryan and GBA, and our own research, we have revised the EUV valuations and have applied the following assumptions:

Element	EUV (existing) Rent	EUV (existing) Yield
B1a Offices	[redacted]	[redacted]
A1 Retail (Ground)	[redacted]	[redacted]
A1 Retail (Basement)	[redacted]	[redacted]
Retail (Store)	[redacted]	[redacted]
B1/D1 Space (Ground)	[redacted]	[redacted]
PCT Lease	[redacted]	[redacted]

Element	EUV (refurbished) Rent	EUV (refurbished) Yield
B1a Offices	[redacted]	[redacted]
A1 Retail (Ground)	[redacted]	[redacted]
A1 Retail (Basement)	[redacted]	[redacted]
Retail (Store)	[redacted]	[redacted]
B1/D1 Space (Ground)	[redacted]	[redacted]
PCT Lease	[redacted]	[redacted]

3.28 The resulting EUV "as is", is [redacted], and the EUV with refurbishment is [redacted] These estimates of Existing Use Value are higher than those proposed by Gerald Eve in their Addendum which is largely down to the increased rent for the B1a Offices and adjustment in yields. The achievable rent will be sensitive to the quality of the refurbishment and repair works, and will also be affected by any tenant incentives.

3.29 Lastly, Gerald Eve have examined transaction evidence located within 1.0mile of the subject property. The transactions are either income producing or vacant. GE rightly note that the motive of the purchaser is unknown and any of the transactions may be subject to redevelopment plans.

3.30 The office sales identified range in value from [redacted] which was a refurbished office on Euston road to [redacted] for a newly built office in Fitzroy Street. The range on a rate per square foot basis is [redacted]. Clearly, there is a wide variation in office sales values in the surrounding area. Having made adjustments to the transaction evidence, GE arrive at a range or [redacted] for the subject site.

3.31 Overall, Gerald Eve's site value considerations can be summarised as follows, a table which we have updated with reference to the August 2017 addendum:

Site Value Consideration	Price
Price paid (2005)	[redacted]
EUV without refurbishment	[redacted]
EUV with refurbishment	[redacted]
Transactional evidence	[redacted]

3.32 Gerald Eve arrive at a Benchmark Land Value of £85million.

3.33 This is with reference to the EUV without refurbishment of [redacted], which was revised down in the addendum from the previously stated [redacted] in the FVA. Gerald Eve maintain that a Benchmark Lane Value of £85million is justified as when compared to the [redacted] "as is" EUV, it reflects the addition of a 9% Landowner's Premium. We consider a Landowner's Premium of 9% would fall within the generally accepted range, albeit the more significant refurbishment that is required, the lower the Premium we would expect.

3.34 Having considered the above evidence it is clear that the EUV is highly sensitive to the proposed market rents and these will be determined by the quality of the space upon refurbishment or repair after vacation of the existing tenant, as well as market conditions at the time of re-letting. We have not assessed the refurbishment rate of [redacted] in detail as we have not been provided with a cost plan however BCIS data would indicate that the rate could be higher depending on the level of specification which would reduce the EUV with refurbishment value. On balance, we have agreed with a figure of £85million as the Benchmark Land Value.

4.0 RESIDENTIAL UNIT VALUES

4.1 The residential element of the proposed scheme, as sought by the planning application, is for 17 residential units. This will comprise six affordable housing units and 11 private sale units.

Private Sales Values

4.2 The 11 proposed private residential dwellings have been valued as follows:

Unit	Floor	Occupancy	Aspect	Unit Size sq m	Unit Size sq ft	Proposed Residential Sales Values	Price per sqft
7	2 - 3	2 Bed 3 Person	Single Aspect Duplex	76	818	[redacted]	[redacted]
8	2	2 Bed 4 Person	Dual Aspect	72	775	[redacted]	[redacted]
9	3	2 Bed 4 Person	Dual Aspect	72	775	[redacted]	[redacted]
10	4	2 Bed 3 Person	Single Aspect	72	775	[redacted]	[redacted]
11	4	3 Bed 5 Person	Dual Aspect	111	1,195	[redacted]	[redacted]
12	5	2 Bed 3 Person	Single Aspect	72	775	[redacted]	[redacted]
13	5	1 Bed 2 Person	Single Aspect	52	560	[redacted]	[redacted]
14	5	3 Bed 5 Person ACC	Dual Aspect	129	1,389	[redacted]	[redacted]
15	6 - 7	3 Bed 5 Person	Dual Aspect Duplex	109	1,173	[redacted]	[redacted]
16	6	2 Bed 4 Person	Single Aspect	77	829	[redacted]	[redacted]
17	6	3 Bed 5 Person	Dual Aspect	129	1,389	[redacted]	[redacted]
Total				**971**	10,452	[redacted]	[redacted]

4.3 Gerald Eve have provided a schedule of one, two and three bedroom flats shown to be either sold subject to contract or under offer, although the date of sale is not stated. An additional [redacted] has been added to the sales prices to reflect a new build premium. Accounting for this adjustment, the schedule shows an average price of [redacted] for one bedroom flats, [redacted] for two bedroom flats and [redacted] for three bedroom flats. There are a range of values from [redacted]

4.4 The proposed sales values for the private residential units can be seen above. The overall GDV equates to a price of [redacted]

4.5 The private residential flats will be located within the northern portion of the building and will be accessed from Hampstead Road. There are separate lobbies for the private units and the affordable units. All units have either a balcony or Juliette balcony. All floors are accessible by lift or by a central staircase.

4.6 We have undertaken our own research into transactions in the area surrounding the subject site and have identified the following additional market evidence, all properties are located near to the subject property:

Address	Description & GIA	Date	Sale Price	Price psf
[redacted] Clarence Gardens NW1 3LH	One bedroom second floor flat within purpose build ex-local authority block Small balcony Residents parking 46.9 sq m (505 sq ft)	03/03/2017	[redacted]	[redacted]
[redacted] Albany Street NW1 4BT	Two bedroom first floor flat conversion One bathroom Large reception room Parking available Attractive building 59.1 sq m (636 sq ft)	13/03/2017	[redacted]	[redacted]
[redacted] 30-40 Grafton Way, WC1E 6DY	Two bedroom flat within purpose built block located close to UCL Hospital and Warren Street station 110 sq m (1,184 sq ft)	05/05/2017	[redacted]	[redacted]
[redacted] Grasmere, Osnaburgh Street NW1 3QL	Two bedroom second floor flat within purpose build ex local authority block One bathroom Large reception room Two small balconies 69.4 sq m (747 sq ft)	23/09/2016	[redacted]	[redacted]
[redacted] Langdale, Stanhope Street NW1 3RA	Slightly further away than the above properties, around 0.3 miles, less desirable location Two bedroom first floor flat within purpose build ex-local authority block One bathroom Large reception room 65.5 sq m (608 sq ft)	21/04/2017	[redacted]	[redacted]
[redacted] Buttermere, Augustus Street NW1 3TE	Slightly further away than the above properties, around 0.3 miles, less desirable location Three bedroom third floor flat within purpose build ex-local authority block One bathroom Large reception room Balcony 71.3 sq m (767 sq ft)	16/09/2016	[redacted]	[redacted]

4.7 It can be seen that prices of flats in the area can be widely varied. Many of the properties we have identified are ex-local authority blocks, many of which are not attractive buildings and are dated in interior. We have not been able to locate many relevant transactions of new build properties in the area. Flats nearer to and overlooking Regents Park achieve significantly higher values.

4.8 We have considered that the proposed flats will be a new build standard and, we assume, finished to a high quality. The flats are generally well laid out and accessible, some with small balconies. The location is very convenient for transport links, retail and leisure amenities and offices and workplaces.

4.9 Although the values proposed by Gerald Eve are higher than the achieved sales prices we have identified we are satisfied that the prices proposed are reasonable when we consider the attributes of the property.

Ground Rents

4.10 Ground rents have been assumed at [redacted] per annum for each of the private residential units. The income has been capitalised at a yield of [redacted] and the investment has been valued by Gerald Eve at [redacted] We find these inputs to be reasonable.

Affordable Housing Values

4.11 The proposed scheme includes 6 affordable housing units which equates to 35% by unit number. The affordable housing will be located in a separate core to the private accommodation and arranged over second to seventh floor.

4.12 The split of the proposed units and their values is shown below. The split between Social Rent to Intermediate by unit mix is 67:33 however by floor space this equates to 70:30.

Unit	Floor	Occupancy	Aspect	Unit Size sq m	Unit Size sq ft	Proposed Residential Sales Values	Price per sqft
1	2	3 Bed 5 Person	Dual Aspect	88	947	[redacted]	[redacted]
2	3	3 Bed 5 Person	Dual Aspect	88	947	[redacted]	[redacted]
3	4	3 Bed 5 Person	Dual Aspect	88	947	[redacted]	[redacted]
4	5	2 Bed 3 Person ACC	Dual Aspect	88	947	[redacted]	[redacted]
5	6 - 7	2 Bed 3 Person	Single Aspect Duplex	77	829	[redacted]	[redacted]
6	6 - 7	2 Bed 3 Person	Single Aspect Duplex	78	840	[redacted]	[redacted]
Total				**507**	**5,457**	[redacted]	[redacted]

4.13 The blended rate of [redacted] has been arrived at by Gerald Eve's affordable housing team and is detailed within the Affordable Housing Statement, appended to the submission. The average rate for the Social Rented units is [redacted] and the Intermediate units is [redacted].

4.14 Units 1-4 are proposed to be affordable rented with Units 5 and 6 being intermediate rent.

4.15 Rent levels for the affordable rented units have been set in line with London Affordable Rent benchmarks for 2017-18. This is £153 per week for two bed flats and £161 per week for three bedroom flats. Management and maintenance costs of [redacted] have been deducted to arrive at the net annual net rent. The rent has been capitalised at a [redacted] initial yield.

4.16 The table below sets out the annual household income levels that would be required in order to afford the weekly housing costs for these properties:

Unit Size	London Affordable Weekly Rents (£)	Estimated Weekly Service Charges (£)	Total Weekly Housing Costs inc. Service Charges(£)	Total Annual Housing Costs inc. Service Charges(£)	Annual Household Income Required (£)
1 Bed	£144	£21	£165	£8,578	£30,622
2 Bed	£153	£27	£180	£9,352	£33,386
3 Bed	£161	£39	£201	£10,429	£37,230

Source: GE

4.17 We accept that the rents as set out are reasonable and in line with our expectations. We would, however, not expect the yield to be higher for the social rented units than the intermediate units. Although no offer from a Registered Provider is included within the report, we would expect these units to be sold to either a RP or to the Council, therefore significantly reducing the risk to the developer. We find a yield of [redacted] to be more appropriate.

4.18 We have used a DCF method to value the social rented units having adjusted the yield. We have valued the rental income over a ten year period with a [redacted] net rental growth. We have adopted GE's assumption of a [redacted] deduction for management and maintenance costs. We arrive at an overall value of [redacted], which equates to [redacted].

4.19 Intermediate rented units rent levels have been set in line with Camden income affordability thresholds and on average will be accessible to households earning £30,000 to £40,000 per annum. Rent has been assumed at £185 per week for a two bedroom flat and £215 per week for a three bedroom flat. A service charge deduction of [redacted] has been made from the gross rent. A further [redacted] management and maintenance cost has been deducted with the net annual rent being capitalised at a [redacted] initial yield.

4.20 The table below sets out the proposed rental levels:

Unit Size	London Affordable Weekly Rents (£)	Total Annual Housing Costs inc. Service Charges(£)	Annual Household Income Required (£)
2 Bed	£185	£9,620.00	£34,343
3 Bed	£215	£11,180.00	£39,913

Source: GE

4.21 We find these rents to be reasonable. We have sought to establish whether a yield of [redacted] is suitable for intermediate rented units. We have referred to the Knight Frank *Private Rented Sector Update* (January 2016) and to Knight Frank's Residential Yield Guide (Q1 2017), the latter of which shows a Net Initial Yield of 4.25% in Q1 2017 for South East Prime, 4% for Greater London Prime, and 3.5%-3.75% for 'Zone 2 Prime' – and Knight Frank state that for these yields they have made an appropriate discount for operating costs. BNP Paribas state within a press release dated March 2016 that PRS yields in London have reached 4% over the course of the last 12 months. On this basis given that the units will be intermediate tenure rather than private rented we accept [redacted] as reasonable.

4.22 Having re-run our DCF appraisal to value the intermediate rented units we arrive at a total value of [redacted], which equates to approximately [redacted]

4.23 Taking the above into consideration, we arrive at a blended rate of [redacted] for the affordable units. When compared to Gerald Eve's proposed value of [redacted] it can be seen that there is a small increase in value which results from our adjustment of the yield for the social rented units. Our revised valuation for this element of the scheme is [redacted].

Parking

4.24 There are no car parking spaces associated with the residential element of the proposed scheme. 33 cycle spaces will be provided.

5.0 COMMERCIAL UNIT VALUATION

5.1 The proposed scheme includes the refurbishment of the existing building and an extension of the floor space to add an additional storey. Retail floorspace will be re-provided at ground floor level as well as a ground floor café. The remaining floorspace will be used as offices.

5.2 We are advised that the proposed commercial space will provide the following areas:

Use	GIA sq m	GIA sq ft	NIA sq m	NIA sq ft
Office (B1)	18,181	195,698	13,891	149,521
Retail (A1)	857	9,225	851	9,160
Café (A3)	118	1,270	113	1,216
Flexible Office/Clinic (B1/D1)	904	9,731	881	9,483

5.3 The proposed scheme aims to provide a high quality Category A office development with floor space which is flexible and can be let to multiple tenants. A communal 'hub' café and lounge will be provided at ground floor level.

5.4 Gerald Eve have valued the proposed commercial space as follows:

Use	Rent £psf	Yield
Office (B1) Ground-7th Floor	(blended) [redacted]	[redacted]
Office (B1) Basement	[redacted]	[redacted]
Retail (A1) Ground	[redacted]	[redacted]
Retail (A1) Basement	[redacted]	[redacted]
Café (A3) Ground	[redacted]	[redacted]
Office/Clinic (B1/D1) Basement	[redacted]	[redacted]
Office/Clinic (B1/D1) Ground	[redacted]	[redacted]

5.5 This results in a Gross Development Value of [redacted] for the commercial element of the scheme.

5.6 We have sought the expert advice of Bryan Pontifex of Crossland Otter Hunt in assessing the proposed value of the commercial element of the scheme. Bryan's full report can be found at Appendix 2. We have also reviewed the transaction evidence at Appendix 3 to assess whether the proposed retail rental values are reasonable.

5.7 A summary of our revised values is as follows:

Use	Rent £psf	Yield
Office (B1) Ground-7th Floor	(blended) [redacted]	[redacted]
Office (B1) Basement	[redacted]	[redacted]
Retail (A1) Ground	[redacted]	[redacted]
Retail (A1) Basement	[redacted]	[redacted]
Café (A3) Ground	[redacted]	[redacted]
Office/Clinic (B1/D1) Basement	[redacted]	[redacted]
Office/Clinic (B1/D1) Ground	[redacted]	[redacted]

5.8 This results in a total market rent of [redacted] per annum.

5.9 A rent-free period of [redacted] months plus a [redacted] months marketing void has been allowed for in valuing the proposed office space. The B1/D1 space has allowed for an [redacted] months rent free period and a [redacted] months marketing void. The valuation assumes 10 year leases and that the space will be let as a whole or floor by floor.

5.10 Gerald Eve have suggested a yield of [redacted] is appropriate for the proposed office and retail space and that a yield of [redacted] should be applied to the B1/D1 office space. Based upon his review of market information, Bryan has advised that a yield of [redacted] is appropriate for the whole of the proposed scheme.

5.11 We are satisfied that a yield of [redacted] is appropriate. When applied to the market rent this results in a gross value of approximately [redacted] having accounted for purchasers costs.

6.0 BUILD COSTS

6.1 Our Cost Consultant, Geoffrey Barnet Associates, has analysed the build cost plan for the proposed scheme prepared by CN Associates, dated January 2017, and concludes that the cost per m2 using BCIS of [redacted] would indicate that the CN Associates rate of [redacted] s within acceptable estimating margins.

6.2 GBA's full cost report can be found at Appendix 1.

6.3 The applicants consultants have applied the following additional cost assumptions:

- Professional fees of [redacted]
- Marketing fees of [redacted]
- Letting agent fees of [redacted]
- Legal Fees of [redacted]
- Disposal fees of [redacted]

6.4 Generally, we accept that these percentages are realistic and in line with market norms.

6.5 CIL charges have been assumed at £506,548 made up of £300,561 Mayoral CIL and £205,987 Borough CIL, and S106 has been included at £500,000. We have not verified these amounts.

6.6 Finance has been included at [redacted] assuming that the scheme is 100% debt financed.

6.7 The developer profit target adopted by Gerald Eve is 17.14% on GDV. This is a blended rate made up of 17% for the commercial, 20% for the private residential and 6% for the affordable residential. We find this approach to be reasonable and we have adjusted the target to reflect our changes in GDV which results in a blended profit target of 17.12%.

BPS Chartered Surveyors

12th September 2017

Appendix 1: Build Cost Report

REVIEW OF COST PLAN
Produced BY CN Associates LLP

FOR

STEPHENSON HOUSE, CAMDEN

8 AUGUST 2017

Geoffrey Barnett Associates
Chartered Quantity Surveyors
Project Coordinators
The Old Mill
Mill Lane
GODALMING
Surrey
GU7 1EY
Tel: 01483 429229

STEPHENSON HOUSE

REVIEW OF CN ASSOCIATES COST PLAN

Geoffrey Barnett Associates

CONTENTS

1.0 INTRODUCTION

1.1 Geoffrey Barnett Associates are Chartered Quantity Surveyors, established in 1974, and have over 40 years' experience of providing quantity surveying, project co-ordination and construction cost management services to clients throughout the UK. The firm's experience covers a wide range of project types and sizes including new build residential and commercial developments, infrastructure projects and refurbishment projects.

1.2 This review relates to CN Associates Cost Plan dated 5th January 2017.

2.0 BASIS OF REVIEW

2.1 The contract build cost estimate provided by the applicant is reviewed by comparison against the Building Cost Information Service (BCIS) construction cost data published by the RICS. The reason for using the BCIS service is that it provides a UK wide and fully independent database compiled and continually updated by input from varied project types and locations.

2.2 BCIS publish costs as average overall prices on a cost per sq metre basis and an elemental cost per sq metre basis for new build work. For new build construction, the BCIS cost levels are used as a baseline to assess the level of cost and specification enhancement in the scheme on an element by element basis. For Refurbishment construction projects only cost per sq metre basis is provided.

2.3 BCIS costs are updated on a quarterly basis. The most recent quarters use forecast figures, the older quarters are firm costs based on historic project data. The BCIS also provides a location adjustment facility against a UK mean index of 100, which allows adjustment of costs for any location in the UK. The BCIS also publish a Tender Price Index based on historic tender prices. This allows adjustment of costs on a time basis where necessary.

2.4 BCIS average costs are available for various categories of buildings such as apartments, offices, shops, hotels, schools, etc. and for new build, extension or refurbishment.

2.5 BCIS average prices per sq metre include overheads and profit (OHP) and preliminaries costs. BCIS elemental costs include OHP but not preliminaries. Average prices per sq metre or elemental costs do not include for external services and external works costs.

2.6 Demolitions and site preparation are excluded from all BCIS costs. However due to the layout of this Cost Plan, much of the Works in the Demolition Section are actually part of the alterations GBA have chosen to include this value.

2.7 This type of contract build cost estimate has been prepared by the applicant in the BCIS elements. However, this is not available in such a format via the BCIS hence, GBA undertook analysis and adjustment to allow direct comparison to BCIS sqm benchmark costs.

2.8 The review of an applicant's contract build cost estimate against BCIS would typically require:

- Adjustment by location factor
- Adjustment for abnormal and enhanced costs
- Review of the applicants estimate on element by element basis
- More detailed analysis where there are significant deviance from BCIS costs
- Adjustment of overheads & profit inclusions to provide direct comparison to BCIS
- Addition of contractors' preliminaries costs
- Addition of ancillary costs, such as fees, statutory charges, etc., as appropriate

2.9 These adjustments enable us to make a direct comparison with BCIS benchmark costs.

2.10 The floor areas stated in the applicants cost estimate are accepted and we do not attempt to check the floor areas. In this case there is a contradiction and GBA have used the figures referred to in the Cost Plan.

3.0 REVIEW & COMMENTARY

3.1 The proposed development comprises 18,181 m2 of B1 office space, 904 m2 of B1/D1 office space, 857 m2 of A1 retail space, 118 m2 of A3 retail space and 17 residential units. The development is of seven storeys. The gross internal floor area is stated in the area schedule to be 22,189m2.

3.2 Costs for the development have been presented in the form of a cost plan. There is no cost per m2 provided and the Cost Plan has been provided grouped within elemental sections.

3.3 Total construction costs are stated to be [redacted] including construction design contingency [redacted] and construction contingency [redacted]. This figure includes a priced preliminaries value at [redacted] and an allowance for overheads and profit at [redacted] It excludes design fees. The value excluding contingencies is [redacted] The report is dated 5th January 2017 and costs are assumed to be current at that time.

3.4 The development consists of predominantly rehabilitation & conversion work and with it being in the London Borough of Camden, GBA have assessed against the BCIS 'upper quartile' rates as a benchmark to compare costs against.

3.5 BCIS average m2 rates include preliminaries but exclude external works, design fees and contingency. To make a like-for-like comparison we have therefore analysed CN Associates Cost Plan to exclude these elements – see table at the end of this report. The resultant costs per m2 can then be compared against BCIS upper quartile rates.

3.6 The overall cost prepared by CN Associates after the omission of External Works & Drainage based on a GIA of 22,189 m2 is [redacted].

3.7 Due to the nature of the project we have aggregated using specific proportions a number of the BCIS indices. This reflects the mixture of construction involved in this project. We calculate that the overall upper quartile cost per m2 based on the BCIS data to be [redacted]

4.0 CONCLUSION

4.1 We therefore conclude that the cost per m2 using BCIS of [redacted] would indicate that the CN Associates rate of [redacted] is within acceptable estimating margins.

APPENDICES

STEPHENSON HOUSE, CAMDON

ANALYSIS OF CN ASSOICATES COST PLAN
DATED 5th JANUARY 2017

	CN Associate Cost Plan			
Element	**£**	**£/m2 GIA** (22,189)		**£/m2 BCIS**
Enabling Works/Demolition/Alterations	[redacted]	[redacted]		[redacted]
Substructure	[redacted]	[redacted]		[redacted]
Superstructure	[redacted]	[redacted]		[redacted]
Finishes	[redacted]	[redacted]		[redacted]
Fittings & Furnishings	[redacted]	[redacted]		[redacted]
Services	[redacted]	[redacted]		[redacted]
External Works & Drainage	[redacted]	[redacted]		[redacted]
Preliminaries	[redacted]	[redacted]		[redacted]
Overheads & Profit	[redacted]	[redacted]		[redacted]
	[redacted]			
Less External Works & Drainage	[redacted]	[redacted]		
	[redacted]			
Cost per sq m		[redacted]		[redacted]
			[redacted]	[redacted]

£/m2 study

Description: Rate per m2 gross internal floor area for the building Cost including prelims.

Last updated: 05-Aug-2017 12:20

› Rebased to London Borough of Camden (129; sample 51)

Maximum age of results: Default period

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
Rehabilitation/Conversion							
345. Shops (15)	1,678	295	462	1,896	1,935	3,803	5

BCIS®

RICS®

£/m2 study

Description: Rate per m2 gross internal floor area for the building Cost including prelims.

Last updated: 05-Aug-2017 12:20

› Rebased to London Borough of Camden (129; sample 51)

Maximum age of results: Default period

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	**Lowest**	**Lower quartiles**	**Median**	**Upper quartiles**	**Highest**	
Rehabilitation/Conversion							
320. Offices							
Generally (15)	1,277	84	553	1,108	1,634	5,527	109
Air-conditioned							
Generally (15)	1,500	353	842	1,307	1,751	5,527	35
1-2 storey (15)	1,605	353	760	1,399	1,909	5,527	15
3-5 storey (15)	1,528	369	776	1,267	1,772	4,394	11
6+ storey (15)	1,384	612	1,035	1,229	1,593	2,549	6
Not air-conditioned							
Generally (15)	1,416	297	837	1,237	1,858	3,696	37
1-2 storey (15)	1,321	297	865	1,108	1,457	3,152	19
3-5 storey (15)	1,438	457	749	1,278	1,761	3,696	14
6+ storey (20)	1,006	339	490	562	1,548	2,089	5

Appendix 2: Commercial Values Report

STEPHENSON HOUSE

HAMPSTEAD ROAD, CAMDEN

LONDON NW1

REPORT PREPARED BY

BRYAN PONTIFEX

OF

CROSSLAND OTTER HUNT

ON BEHALF OF

BPS CHARTERED SURVEYORS

SEPTEMBER 2017

CROSSLAND OTTER HUNT

020 7408 1114

www.coh.eu

INSTRUCTIONS

We have been asked to review the financial viability assessment prepared by Messrs Gerald Eve, dated June 2017, together with additional information provided, dated 16th August 2017, and to provide the following information:

1. The current estimated rental value of the property unrefurbished
2. The current estimated rental value of the current building subject to a proposed refurbishment of the existing building
3. The estimated investment yield of the building let unrefurbished
4. The estimated investment yield of the property subject to a refurbishment of the existing building
5. What incentives would be available to tenants in today's market, taking the building either in one or two, and what would be the likely length of the lease and any other specific terms that might affect value

The proposed scheme is to take the building back to its frame, to extend it and carry out a substantial refurbishment. In this event, we have been asked to:

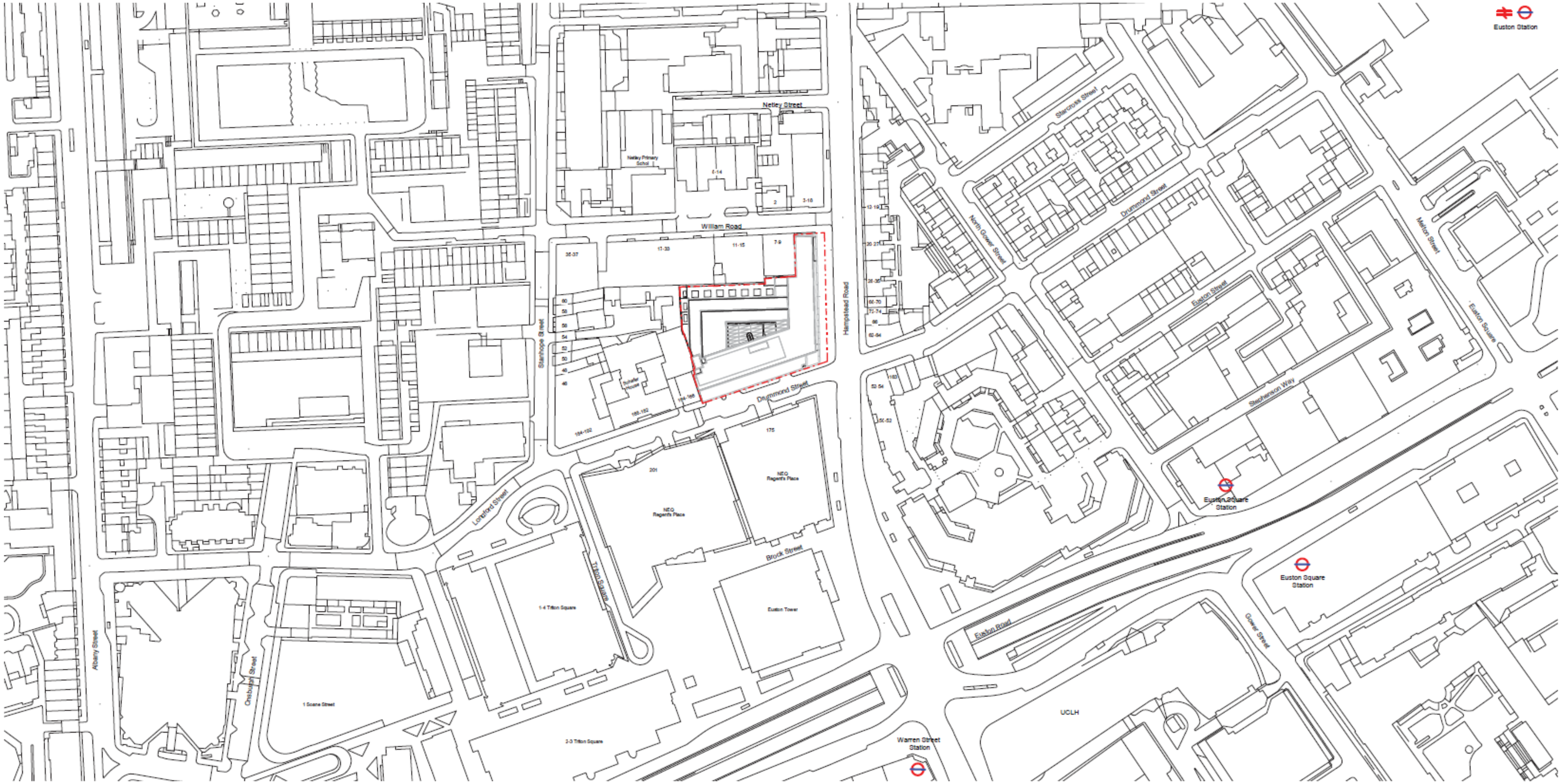
1. Give an estimated rental value as at today's date, assuming such a specification of works
2. The investment yield of a fully let building, subject to a substantial refurbishment
3. What incentives, such as rent-free, would be granted to tenants and what lease terms would be most likely to be achieved on new lettings of the substantially and extended building

LOCATION

Stephenson House is located at 75 Hampstead Road, on the north west corner of Hampstead Road and Drummond Street. It is within 100 yards of the junction of the Euston Road and the underground stations in the immediate vicinity are Warren Street (Victoria and Northern lines) and Euston Square (Circle, Hammersmith & City and Metropolitan lines).

The building sits outside the current Congestion Charging zone and just to the north of the substantial office redevelopment complex carried out by British Land over the last 10 years, known as Regents Place.

SITE PLAN (see overleaf):



Key

Boundary of the Development Site

DESCRIPTION

The office building was constructed in 1958 and comprises basement car parking and offices on the ground and six upper floors, with frontages to both Drummond Street and Hampstead Road. It was substantially refurbished in the 1990s.

There is a retail element to the ground floor, with the offices being majority occupied by the NHS. Floorplates of the upper floors are between 13,000 and 14,000 sq ft in two wings either side of a central core, having male, female and disabled toilets on each floor, air conditioning, raised floors, and three large automatic passenger lifts. The majority of the floors have suspended ceilings, with recessed strip lighting and a central column of double pillars to each wing.

The ground and first floors have substantial additional floor areas by extending at the rear, and provide between 20,000 sq ft and 24,000 sq ft.

Bryan Pontifex of Crossland Otter Hunt inspected the property on 31st July 2017. The building is well known to him, as he acted for Logica, the previous occupier of the building, on some of their property disposals. Crossland Otter Hunt also acted on the acquisition of the third floor for Hillgate Travel some six years ago.

EXISTING BUILDING

LET “AS IS”

The existing building provides large floor plates, albeit split by the central core.

The three automatic 10-person passenger lifts are somewhat limiting for a building of this size and, while the building has raised floors and air conditioning, I anticipate that the age of the M&E will require expenditure, even for the reletting as an existing building.

REFURBISHED

Working within the existing envelope of the current building, a refurbishment would involve replacing / upgrading the air conditioning, replacing the suspended ceiling either with a metal tile and linear LED lights. The specification for this is outlined in the additional information provided by G.E. An alternative could be to expose the ceiling slab to provide a more modern finish. Toilet provision is well provided for, but would require substantial refurbishment to bring it up to a modern appearance. The refurbishment should also look to use the flat roof at the rear for a terrace and convert some of the parking into amenities for cycling, showers and locker storage.

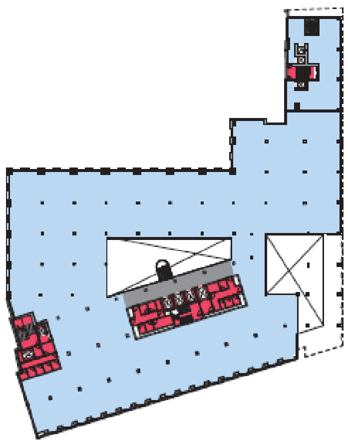
PROPOSED SCHEME

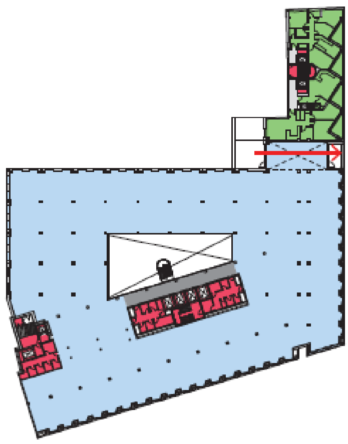
While the proposed scheme looks attractive and well designed, and provides a good floor plate for the office element and a decent entrance hall, the lower ground floor office and commercial space, excluding retail, will lack good natural light. The ground floor will, in the main, rely on the natural light from the atrium and from some roof lights at the northern end of the office space.

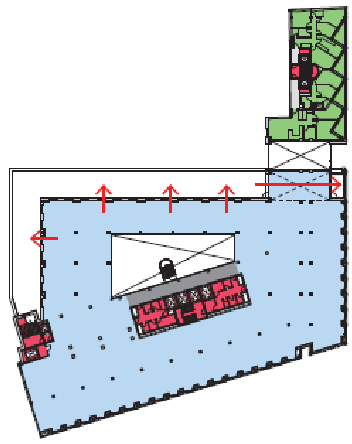
The office core appears to be well designed, and the remainder of the office space should work well, albeit that it will be noticeable that there are significant numbers of pillars within the office space compared to a new development. The provision of terraces on the third, fourth, sixth and seventh floors will provide an attractive and popular amenity for an office occupier.

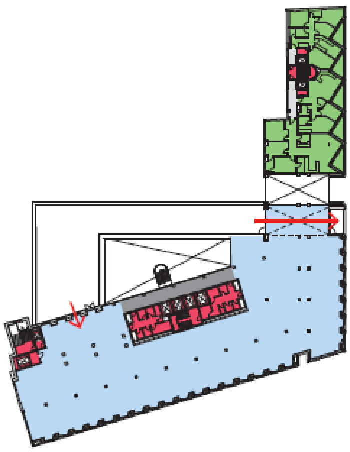
The new scheme takes out all the car parking save for disabled spaces (four), and provides for significant amounts of cycle storage and associated facilities necessary for this amenity.

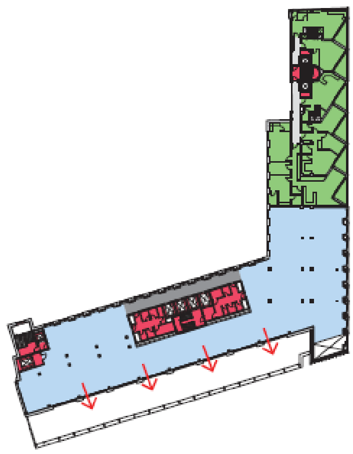
The proposed office space will still suffer from the structural disadvantage of a relatively low floor-to-ceiling height (slab to slab). The scheme will provide for a bulkhead along the window frontages, and the typical floor-to-ceiling heights specified in the design statement of 2.98m (GL) 2.83m (LI) and 2.65m appear to be generous. The latest information on floor-to-ceiling heights suggests 2.75m, but again this seems very high given they are keeping the existing structure.

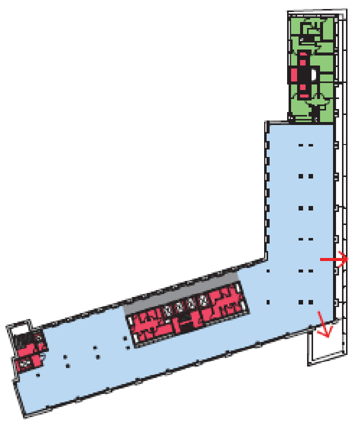

1st Floor Plan


2st Floor Plan


3rd Floor Plan


4th Floor Plan


6th Floor Plan


7th Floor Plan

In the addendum by G.E, clause 2.17 on page 10 has one or two possible errors under the assumed specification, as it mentions refurbished WCs and lifts, when these will be completely new.

FINANCIAL ANALYSIS

Gerald Eve have produced three revised valuations:

1. The existing building is now assumed to have the current income up until October 31st 2018. It then allows an 18-month void on 51,726 sq ft of offices on first to third floors. It then assumes these floors are let at [redacted] per sq ft, with an 18-month rent-free period, and the income stream is valued at a yield of [redacted]

   The ground floor B1/D1 space, comprising some 17,556 sq ft, is assumed to be let at [redacted] per sq ft in May 2020 on a 15-year lease, but with 12 months rent-free, with the income valued at [redacted]

   The tenants on the fourth, fifth and sixth floors are assumed to renew their lease in November 2018 on some 34,604 sq ft at [redacted] per sq ft on a 15-year lease, with three months rent-free. The income is valued at [redacted]

   This valuation produces a net value of [redacted] for the property 'as is'.

   In looking at this analysis, we consider that the void period of 18 months from November 2018 to May 2020 on 52,726 sq ft of offices is too great, and I would allow a three-month period for any construction works, a period of nine months' marketing void and a rent-free period of nine months on a five-year term. I consider the rental value for this accommodation would be in the region of [redacted] per sq ft.

   On the B1/D1 space on the ground floor, I consider that the rental value of this space would be [redacted] per sq ft, with a six-month marketing void and a nine-month rent-free period on a five-year lease.

   On the renewal of the fourth, fifth and sixth floors, I consider that the rental value would be [redacted] per sq ft and agree that a three-month rent-free period should be allowed for.

   I consider that a yield over these three elements of the building would be [redacted].

2. The refurbishment of the existing building assumes that the fourth, fifth and sixth-floor tenant renews at [redacted] per sq ft on 34,604 sq ft, with a 12-month rent-free period from November 2018. This income is valued at [redacted]

   The remaining offices of 51,726 sq ft are at a rent of [redacted] per sq ft and it assumes it has a void of two years, and a rent-free period of 18 months on a 15-year lease.

   The B1/D1 space also assumes a two-year void on 17,556 sq ft, and a letting on a 15-year lease at [redacted] per sq ft, with the income capitalised at [redacted].

   I consider that the estimated rental value for the refurbished offices (51,726 sq ft) should be [redacted] per sq ft and consider that a nine-month construction period for the refurbishment should be sufficient, and agree that there should be an 18-month rent-free period on an assumed 10-year lease, with a marketing void of nine months.

I agree that this income should be capitalised at [redacted].

The B1/D1 space on the ground floor of 17,556 sq ft in my opinion is [redacted] per sq ft and would allow a nine-month marketing void with nine months' rent free on a five-year lease, capitalised at [redacted]

I consider that the renewal to the current tenant on the fourth to sixth floors should be at [redacted] per sq ft, with three months' rent free, and valued at [redacted].

3. The proposed scheme provides 132,332 sq ft of offices, assumed to be let [redacted] per sq ft and capitalised at [redacted]

   It allows for compensation to be paid to the tenant on the fourth to sixth floors, and assumes an estimated rental value of [redacted] per sq ft on the B1/D1 basement, [redacted] per sq ft on the B1/D1 ground floor and [redacted] per sq ft on the basement offices. It works from a current building value of [redacted] and produces a profit on cost of [redacted]

   The analysis now allows for the fact that vacant possession will not be obtained until October 31st 2018.

   In this case, I consider that the rental values for the main offices should be [redacted] per sq ft, the B1/D1 basement should be [redacted] per sq ft, the B1/D1 ground floor should be [redacted] per sq ft and the basement offices should be [redacted] per sq ft.

   The yield should be [redacted] and I would allow a [redacted]-month rent-free period for a new 10-year lease, marketing void of six months and a construction period of 21 months.

   I consider that the rent-free for the B1/D1 would be less, at 18 months, and the marketing void less, at three months, given that this is a popular use in today's market.

In all cases, the analysis is based upon a valuation as at June 2017.

Our assessment of the relevant figures it set out in the table overleaf:

COMPARISON OF THE THREE POTENTIAL OPTIONS FOR THE PROPERTY

	ESTIMATED RENTAL VALUE	RENT FREE	MARKETING VOID	CONTRUCTION TIME	YIELD	COMMENTS
EXISTING UNREFURBISHED **B1/D1** **4TH / 5TH / 6TH FLOORS**	[redacted] [redacted] [redacted]	[redacted] [redacted] [redacted]	[redacted] [redacted] [redacted]	[redacted] [redacted] [redacted]	[redacted] [redacted] [redacted]	[redacted]
REFURB OF EXISTING **B1/D1** **4TH / 5TH / 6TH FLOORS**	[redacted] [redacted] [redacted]	[redacted] [redacted] [redacted]	[redacted] [redacted] [redacted]	[redacted] [redacted] [redacted]	[redacted] [redacted] [redacted]	[redacted]
PROPOSED SCHEME	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
PROPOSED SCHEME B1/D1 **BASEMENT OFFICES**	[redacted] [redacted]	[redacted] [redacted]	[redacted] [redacted]	[redacted] [redacted]	[redacted] [redacted]	[redacted]

SUMMARY

The proposed scheme is well thought out and improves the overall office building. The loss of car parking is not significant and the change to the office core and introduction of terraces is in line with current requirements.

The extent of the refurbishment of the existing building is hard to accurately assess in terms of scope of specification and cost, but the outlines provided are sensible.

We are unable to provide a detailed view of the rental values of the retail element, although these again look sensible and will not make a huge variation to the figures other than the extent of rent-free is significantly lower for retail compared to offices.

If there are any questions or further clarity is needed, please contact the writer, Bryan Pontifex.

Yours faithfully

Crossland Otter Hunt

APPENDIX A

COMPARABLES

Investment Evidence

ADDRESS	AREA / SQ FT	PRICE		YIELD
110 Tottenham Court Road	16,345	£24m	£1,468 psf	4.07%
20-22 Mortimer Street	9,153	£11.65m	£1,273 psf	3.56%
1 Southampton Street	32,494	£53m	£1,631 psf	3.85%
180 Wardour Street	89,337	£260m	£2,910 psf	2.93%
120 Tottenham Court Road	198,109	£69.3m	£350 psf	3.3%
268 High Holborn	67,803	£42.7m	£630 psf	3.3%
Dorset Square	23,235	£30.2m	£1,300 psf	4.25%
The Grove, Marylebone Road	25,000	£25m	£1,000 psf	4.5%
13-17 Fitzroy Street	92,700	£98.5m	£1,062 psf	4.6%

Letting Evidence

ADDRESS	AREA / SQ FT	FLOOR	DATE	TENANT	£ psf	COMMENT
90 Whitfield Street	12,084	3rd	Jul 17	Freightliner	£71.00	10-year lease, Cat A, 22 months rent-free
1 Eversholt Street	5,700	9th	May 17		£64.50	5 years
Euston House	11,786	4th	Mar 16	i2 Office	£57.50	To Sept 2022, 7 months rent-free
40-44 Clipstone Street	5,350	3rd	Jan 17		£65.00	No A/C
Tavistock House, 13 Tavistock Square	5,010	Entire	Apr 16	Birkbeck College	£55.00	Educational D1 use
2 Fitzroy Place	12,864	2nd	Jul 17	London & Capital	£79.50	10 years, 23 months rent-free

COMPARABLES (currently available in the market)

Relevant to:

a). Existing

ADDRESS	AREA / SQ FT	RENT / PSF	LEASE	COMMENTS
40 Bernard Street, WC1	9,000	£59.50	Sept 2015	Assignment
20 Capper Street, W1	8,000	£65.00	To 02/2022	Assignment Rent review at this level
163 Eversholt Street, NW1	9,197	£55.00	New	U/O
237 Tottenham Court Road, W1	8,300	£57.50	Assign	To 09/2020

b). Refurbishment

ADDRESS	AREA / SQ FT	RENT / PSF	LEASE	COMMENTS
184 Drummond Street	6,800	£67.50	New	Other floors
350 Euston Road	5,834	£67.50 - £67.70		
101 New Cavendish Street	22,985	£69.50	New	Other space available
120 New Cavendish Street	5,500	£69.50	New	Other space available
24 Stephenson Way	5,385	£62.50	New	
Lynton House, Tavistock Square	5,000	£69.50	New	
20 Eastbourne Terrace, floors 15 & 16	12,000	£77.50 psf	04/2016	

c). Proposed scheme

ADDRESS	AREA / SQ FT	RENT / PSF	LEASE	COMMENTS
180 Great Portland Street	15,730	£75.00	New	
Heals Building, Tottenham Court Road	10,510	£75.00	Sublease	Rent review May 2020

Appendix 3: Retail Comparable Evidence

Address	Description & GIA	Date	Transaction details	Rent £psf
52 Tottenham Court Road W1T 2EH	Ground floor shop Appears in need of some refurbishment 0.7 miles from the proposed development 130sqm/1,398sqft	24/07/17	£70,000p.a. 10 year lease 3 year break option 3 months rent free	£50
Victoria House, Bloomsbury Place WC1A 2EB	Ground floor unit within a mixed use property Had been on the market since 01/03/2014 Currently used as a hair salon 1.1 miles from the proposed development 120sqm/1,290sqft	08/11/16	£60,000p.a. 10 year lease 6 months rent free Break option 2021	£47
41 Theobalds Road WC1X 8SP	Ground floor shop Appears in a relatively dated row of shops 1.3 miles from the proposed development 79sqm/855sqft	14/10/16	£32,500p.a. 15 year lease 5 year break option 1 month rent free Rent reviews 2021, 2026	£37

Address	Description & GIA	Date	Transaction details	Rent £psf
42 Museum Street, Bloomsbury WC1A 1LY	Basement and ground floor shop 1 mile from proposed development 94sqm/1,015sqft	22/03/17	£62,000 15 year lease 2 months rent free Rent review 2022, 2027	£61
21 Foley Street W1W 6DR	Planning for A1, A2 and B1 uses Lower ground floor property 0.6 miles from the proposed development Air conditioning Split into two rooms, with one currently being used as a kitchen 46sqm/500sqft	15/12/16	£25,000p.a. 2 year lease	£50

Unit K2, Brunswick Centre, Brunswick Square, WC1N 1AW	Unit with permission for A1/A2/A3/A4/A5 Lessee is a perfume shop Unit within a retail centre 0.9 miles from proposed development 62sqm/670sqft	01/10/16	£66,000p.a. 5 year lease	£99
34 Goodge Street W1T 2QL	Ground floor shop Prime location in the heart of Fitzrovia 0.6 miles from the proposed development 52sqm/561sqft	25/10/16	£60,000p.a. 5 year lease	£107
53 Goodge Street W1T 1TG	Leased as a shop Appears to now be used as a bakery/café suggesting a change in use class 0.6 miles from the proposed development 51sqm/550sqft	30/09/16	£50,000p.a. Lease information undisclosed	£91

Appendix 4: BPS Argus Appraisal

Stephenson House Proposed Appraisal
Camden Town

Development Appraisal
BPS Surveyors
12 September 2017

Stephenson House Proposed Appraisal
Camden Town

Summary Appraisal for Phase 1 Final Appraisal - Fixed Land

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
Private Residential	1	10,463	[redacted]	[redacted]	[redacted]
Affordable	1	5,479	[redacted]	[redacted]	[redacted]
Totals	**2**	**15,942**			[redacted]

Rental Area Summary	**Units**	**ft²**	**Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Offices	1	132,332	[redacted]	[redacted]	[redacted]	[redacted]
A1 Retail (Ground)	1	4,779	[redacted]	[redacted]	[redacted]	[redacted]
A1 Retail (Basement)	1	4,381	[redacted]	[redacted]	[redacted]	[redacted]
A3 Retail (Ground)	1	1,216	[redacted]	[redacted]	[redacted]	[redacted]
B1/D1 Basement	1	7,804	[redacted]	[redacted]	[redacted]	[redacted]
B1/D1 Flexible (Ground)	1	1,679	[redacted]	[redacted]	[redacted]	[redacted]
Ground Rents - Blended Rate	11	10,463	[redacted]	[redacted]	[redacted]	[redacted]
Offices (Basement)	1	11,065	[redacted]	[redacted]	[redacted]	[redacted]
Totals	**18**	**173,719**			[redacted]	[redacted]

Investment Valuation

Offices
Market Rent [redacted] YP @ [redacted]

A1 Retail (Ground)
Market Rent [redacted]

A1 Retail (Basement)
Market Rent [redacted]

A3 Retail (Ground)
Market Rent [redacted]

B1/D1 Basement
Market Rent [redacted]

B1/D1 Flexible (Ground)
Market Rent [redacted]

Ground Rents - Blended Rate
Market Rent [redacted]

Offices (Basement)
Market Rent [redacted]

GROSS DEVELOPMENT VALUE [redacted]

Purchaser's Costs [redacted]

NET DEVELOPMENT VALUE [redacted]

Existing Leases
Existing Leases [redacted]

NET REALISATION [redacted]

OUTLAY

ACQUISITION COSTS
Fixed Price [redacted]

Stamp Duty [redacted]
Agent Fee
Legal Fee

Stephenson House Proposed Appraisal
Camden Town

	ft²	Rate ft²	Cost	
				[redacted]
CONSTRUCTION COSTS				
Construction	**ft²**	**Rate ft²**	**Cost**	
Construction Cost	[redacted]	[redacted]	[redacted]	[redacted]
Contingency		[redacted]	[redacted]	
CIL				
S106				
				[redacted]
PROFESSIONAL FEES				
Professional Fees		[redacted]	[redacted]	
				[redacted]
MARKETING & LETTING				
Marketing		[redacted]	[redacted]	
Letting Agent Fee				
Letting Legal Fee				
				[redacted]
DISPOSAL FEES				
Sales Agent Fee		[redacted]	[redacted]	
Sales Legal Fee				
				[redacted]
Tenant Compensation				
Tenant Compensation			[redacted]	
				[redacted]
FINANCE				
Debit Rate 6.500%, Credit Rate 0.000% (Nominal)				
Land			[redacted]	
Construction				
Total Finance Cost				[redacted]
TOTAL COSTS				[redacted]
PROFIT				
				[redacted]
Performance Measures				
Profit on Cost%		[redacted]		
Profit on GDV%				
Profit on NDV%				
Development Yield% (on Rent)				
Equivalent Yield% (Nominal)				
Equivalent Yield% (True)				
IRR		[redacted]		
Rent Cover		[redacted]		
Profit Erosion (finance rate 6.500%)				